

**HARBOR BEACH AREA
DISTRICT LIBRARY
HURON COUNTY
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2008**

3280002008Audit

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* Harbor Beach Area District Library	County* HURON	Type* LIBRARY	MuniCode* 32-8-000
Opinion Date-Use Calendar* Oct 1, 2008	Audit Submitted-Use Calendar* Nov 12, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 469,664.00
General Fund Expenditure: ?	\$ 373,628.00
Major Fund Deficit Amount: ?	\$ 0.00

General Fund Balance: ?	\$ 843,808.00
Governmental Activities Long-Term Debt (see instructions): ?	

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* JoAnn	Last Name* Lakie	Ten Digit License Number* 1101017493		
CPA Street Address* 41 E Main St	City* Sebewaing	State* MI	Zip Code* 48759	Telephone* +1 (989) 883-3122
CPA Firm Name* Nietzke & Faupel, PC	Unit's Street Address* 105 N Huron Ave	Unit's City* Harbor Beach	Unit's Zip* 48441	

THIS PAGE INTENTIONALLY LEFT BLANK

HARBOR BEACH AREA DISTRICT LIBRARY

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii - v
BASIC FINANCIAL STATEMENTS	1
Governmental Fund Balance Sheet/Statement of Net Assets	2
Statement of Governmental Fund Revenue, Expenditures, and Changes In Fund Balance/Statement of Activities	3 - 4
Notes to the Financial Statements	5 - 11
REQUIRED SUPPLEMENTARY INFORMATION	12
Budgetary Comparison Schedule – General Fund	13 – 14
Budgetary Comparison Schedule – Special Revenue Fund	15



Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA

Consultant: Allan W. Nietzke, CPA

Principals: Eugene R. Gascho, COO
Brian V. Hazard, CPA JoAnn E. Lakie, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Harbor Beach Area District Library
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities and each major fund of the Harbor Beach Area District Library, Harbor Beach, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harbor Beach Area District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Harbor Beach Area District Library, Harbor Beach, Michigan as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules on pages ii through v and 13 through 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel P.C.
NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 1, 2008

Management's Discussion and Analysis

This discussion and analysis of the Harbor Beach Area District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. The second column includes information on the Library's Special Revenue Fund. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows key financial information in a condensed format between the current year and the prior year:

Assets	2007-08	2006-07
Cash & deposits	\$ 668,603	\$ 589,547
Reserved & restricted cash assets	230,300	220,018
Capital assets	<u>651,650</u>	<u>632,240</u>
Total Assets	\$1,550,553	\$1,441,805
Liabilities		
Other liabilities	<u>\$ 22,181</u>	<u>\$ 24,156</u>
Net Assets		
Invested in capital assets – net of debt	\$ 651,650	\$ 632,240
Restricted for donor-restricted purpose	5,599	5,868
Restricted funds	224,701	214,150
Unrestricted Funds	<u>646,422</u>	<u>565,391</u>
Total Net Assets	<u>\$ 1,528,373</u>	<u>\$1,417,649</u>
Revenue		
Program Revenue:		
Grants	\$ 7,503	\$ 7,488
Charges for services – Theatre	75,853	81,032
General Revenue:		
Property Taxes	363,871	348,639
Fines	26,061	25,067
Interest	31,051	29,255
Other revenue	<u>41,140</u>	<u>35,937</u>
Total Revenue	<u>\$ 545,479</u>	<u>\$ 527,419</u>
Program expenses:		
Library	309,524	311,028
Theatre	79,336	81,077
Depreciation	<u>45,895</u>	<u>45,944</u>
Total expenses	<u>434,755</u>	<u>438,049</u>
Change in Net Assets	<u>110,724</u>	<u>89,370</u>
Net assets – Beginning of the year	1,417,649	1,328,279
Net assets – End of the year	<u>\$ 1,528,373</u>	<u>\$ 1,417,649</u>

The Library's main source of revenue is through a perpetual millage of 1.6000 mills approved in September of 1994. The millage has since been reduced by MCL 211.34d "Headlee" to 1.5781 mills. Even with the Headlee reduction, the Library's revenue from property tax collection has increased due to an increase in district property values. Property taxes represent 67% of the Library's total revenues.

Salaries and fringe benefits are a significant expense of the Library, representing 54% of the Library's total expenses.

The Library's revenue exceed the expenses this year by \$91,313. There were investments in the Library's book collection (\$12,720), capital outlay (\$9,487) and construction in progress (\$43,098). The excess revenue over expenses and capital improvements were offset by depreciation of \$45,895 to give the Library an increase of \$110,724 in net assets.

The Library's Funds

The Library has undesignated, reserved and restricted funds. The Library uses undesignated funds to pay regular operating expenses and other expenses as approved by the Board.

The reserved funds have been designated for specific purposes. Technology improvements, unemployment funding, sick pay, memorial & special projects and capital improvements are current designations for reserved funds. Money is set aside in the capital improvement funds for long range needs, such as: replacing the heating/cooling system, roof replacement, window replacement, and other major maintenance or improvement needs.

The Library also has the Willett Trust Fund. The donor restricted the use of the interest revenue of the fund for the purpose of purchasing new children's books. The principal in the Willett Trust Fund cannot be spent.

Special Revenue Fund (Theatre)

The Special Revenue Fund (Theatre) had gross income of \$81,013 for the fiscal year 2007-2008. It also had expenses for the same fiscal period totaling \$85,736. This resulted in an operating loss of \$4,723 compared to a loss of \$26 in the previous year. Several factors attributed to the operating loss this fiscal year, including increases in minimum wage and advertising costs. However, the biggest factor in the loss was the decrease of 2,384 patrons attending movies in 2007-08. Movie attendance was down from 13,249 patrons in 06-07 to only 10,865 patrons in 07-08. This is the second year in a row of severe decline in patrons attending movies.

Budgetary Highlights

As required by State of Michigan law, the Library amended the budget to take into account events during the year.

The Library began offering an oil painting class in February, 2007. The class has been very successful. Students pay the instructor's fee for the class. The fees collected were entered

The Library began offering an oil painting class in February, 2007. The class has been very successful. Students pay the instructor's fee for the class. The fees collected were entered into a new revenue category titled Program Fees. The expenses were posted to Adult Library Programs. Program Fees income was adjusted by \$5000, which was offset by an adjustment of \$5,200 to Adult Library Programs expense.

The Library's capital outlay expenditures were higher than budgeted because the architectural fees for the planned building renovation were paid out of this year's budget. The architectural fees were over \$43,000. The Board intended to use the fund balance, rather than the current year income, for the architectural fees. The budget reflects this intent with \$44,000 more budgeted for expenses than income.

Capital Asset and Debt Administration

As of June 30, 2008, the Library had \$1,550,553 invested in a broad range of capital assets, including cash deposits, building, collections, and equipment. This is an increase in total net assets of 7.5% during the current fiscal year.

Custodial credit risk is the risk that in the event of bank failure, the Library's deposits may not be returned to it. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Library does not have any long-term debts.

Next Year's Budgets and Millage Rates

The Library's millage rate will not have a Headlee reduction for the taxes due December 1, 2008 and the property tax value increased by 4%. This will result in an increase in tax revenue for the next fiscal year.

The Board is developing a plan to improve accessibility to the Community House, increase library space, create a local history room, and correct a structural problem in the basement of the building. The Board expected construction to start in the spring of 2008 but several delays moved the tentative start date to the spring of 2009. The total cost of the project is estimated at about \$920,000. The Board expects to borrow \$750,000 to finance the project. The 2008-09 budget includes a line item for Credit Repayment Reserve of \$40,500 in anticipation of the loan. However, the budget does not reflect the expenses of the proposed renovation. If the plans progress as expected, the budget will be amended to cover the items relating to the construction.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director, Vicki Mazure, at (989) 479-3417.

BASIC FINANCIAL STATEMENTS

HARBOR BEACH AREA DISTRICT LIBRARY

GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS JUNE 30, 2008

<u>ASSETS</u>	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF NET ASSETS</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	
Cash and deposits	\$165,015	\$ 37,471		\$ 202,486
Investments	466,117			466,117
Restricted asset:				
Cash	230,300			230,300
Capital assets - net			\$ 651,650	651,650
TOTAL ASSETS	<u>\$861,432</u>	<u>\$ 37,471</u>	<u>\$ 651,650</u>	<u>\$ 1,550,553</u>
 <u>LIABILITIES AND FUND EQUITY</u>				
LIABILITIES:				
Accounts payable	\$ 13,635	\$ 3,723		\$ 17,357
Accrued payroll taxes	1,302	272		1,574
Accrued wages	2,687	562		3,249
TOTAL LIABILITIES	<u>17,623</u>	<u>4,557</u>	<u>-</u>	<u>22,181</u>
FUND BALANCE/NET ASSETS:				
Fund balance:				
Unreserved, undesignated	613,508	32,914	\$ (646,422)	-
Reserved	<u>230,300</u>		<u>(230,300)</u>	<u>-</u>
TOTAL FUND EQUITY	<u>843,808</u>	<u>32,914</u>	<u>(876,722)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$861,432</u>	<u>\$ 37,471</u>		
NET ASSETS:				
Invested in capital assets			651,650	651,650
Restricted			230,300	230,300
Unrestricted			646,422	646,422
TOTAL NET ASSETS			<u>\$ 1,528,373</u>	<u>\$ 1,528,373</u>

HARBOR BEACH AREA DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	<u>MODIFIED ACCRUAL BASIS</u>			<u>STATEMENT OF</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	<u>ACTIVITIES</u>
REVENUES:				
Taxes	\$ 363,871			\$ 363,871
State grants	4,503			4,503
Charges for services		\$ 75,853		75,853
Fines and forfeits	26,061			26,061
Rentals	14,999	875		15,874
Program fees	9,475			9,475
Interest	29,462	1,589		31,051
Grants	3,000			3,000
Other revenue	18,294	2,696	\$ (5,200)	15,790
TOTAL REVENUES	<u>469,664</u>	<u>81,013</u>	<u>(5,200)</u>	<u>545,479</u>
EXPENDITURES:				
Salaries and wages	144,324	29,859		174,183
Employer FICA	11,038	2,287		13,325
Retirement	11,516	2,207		13,725
Employee benefits	33,112			33,112
Insurance - Workers Comp.	2,304			2,304
Books	13,223		(12,720)	503
Magazines & periodicals	1,920			1,920
Video cassettes	8,692			8,692
Computer software	1,400			1,400
White Pine contract	2,031			2,031
Copier lease	1,442			1,442
Film rental		19,959		19,959
Concession purchases		13,603		13,603
Pickup & delivery		2,356		2,356
Supplies	3,611	596		4,206
Utilities	29,123	545		29,668
Water & sewer	737			737
Internet access	574			574
Telephone	2,469			2,469
Repairs & maintenance	16,505	1,136		17,641
Custodial service		5,000	(5,000)	

(Continued)

HARBOR BEACH AREA DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	<u>MODIFIED ACCRUAL BASIS</u>			STATEMENT OF
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>ADJUSTMENTS</u>	<u>ACTIVITIES</u>
Insurance	7,207	200	(200)	7,207
Advertising	1,459	6,686		8,145
Audit fees	2,600			2,600
Meals and mileage	1,374	103		1,477
Workshops	390			390
Friends of the Library	3,404			3,404
Adult library program	10,985			10,985
Concert series	3,644			3,644
Summer reading program	1,967			1,967
Technology equipment	2,795			2,795
Depreciation			45,895	45,895
Capital outlay	<u>53,782</u>	<u>1,200</u>	<u>(52,585)</u>	<u>2,397</u>
TOTAL EXPENDITURES	373,628	85,736	(24,610)	434,755
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>96,036</u>	<u>(4,723)</u>	<u>19,410</u>	<u>110,724</u>
FUND BALANCE/NET ASSETS - JULY 1	747,772	37,637	632,240	1,417,649
FUND BALANCE/NET ASSETS - JUNE 30	<u>\$ 843,808</u>	<u>\$ 32,914</u>	<u>\$ 651,650</u>	<u>\$ 1,528,373</u>

The accompanying notes are an integral
part of the financial statements.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying policies of the Harbor Beach Area District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Harbor Beach Area District Library.

Reporting Entity:

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, the definition of the reporting entity is based primarily on the notion of financial accountability. The District Library is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of Harbor Beach Area District Library.

Basis of Presentation:

The accounts of the District Library are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

Governmental Funds:

The District Library reports the following major governmental funds:

General Fund – The General Fund accounts for the general operating expenditures of the District Library not recorded elsewhere. Revenues are derived primarily from property taxes, State distributions and penal fines.

Special Revenue Fund – The Community Theatre Fund is used to account for specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative action.

Modified Accrual and Full Accrual Data:

The Library has two funds, the General Fund, which is the Library's primary operating fund, and the Special Revenue Fund, which is the Theatre's operating fund.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Modified Accrual and Full Accrual Data: (Continued)

Both the General Fund and the Special Revenue Fund are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In addition to presenting information for the General and Special Revenue funds, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Budgets:

Formal budgetary integration is employed as a management control device during the year for the Governmental Fund types. The budgets are adopted on a basis consistent with generally accepted accounting principles.

The Board of Trustees prepares the budgets on a line item basis. Any revisions that alter any line item appropriation must be approved by the Board of Trustees. Therefore, the level of budgetary responsibility is at the line item level.

Unused appropriations lapse at the end of the year.

Capital Assets:

Generally, capital assets are defined by the Library as assets with an estimated useful life in excess of two years. The Library follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite their individually small cost.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and building improvements	20-40 years
Furniture and equipment	5-10 years
Library books, videos and DVDs	5 years

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes:

During 1994, the voters of the Harbor Beach Area District Library approved a millage of 1.6 mills on all real and personal property. This levy is collected by the Townships and City within the Library's boundaries based on the following schedule: Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. These taxes have a final collection date of February 28 before they are added to the County's delinquent tax rolls. The delinquent real property taxes are purchased by the County's Revolving Tax Fund. Management's policy of revenue recognition for property taxes is to record the revenue in the year levied.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 – BUDGET COMPLIANCE:

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental information, the District Library's actual and budgeted expenditures have been shown on a line item basis. The approved budgets of the District Library have also been adopted to the line item level.

During the year ended June 30, 2008, the District Library had no expenditures which were in excess of the amounts appropriated.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – CASH AND INVESTMENTS:

Deposits are carried at cost. In accordance with Michigan Compiled Laws, the District Library is authorized to deposit and invest in banks, savings and loan associations or credit unions having a principal office or branch office in this state; obligations of the U.S. Treasury, the principal and interest of which are fully guaranteed by the United States; certificates of deposit of a state or national bank or state or federal savings and loan association; commercial paper rated prime and maturing within 270 days of purchase; securities issued or guaranteed by agencies or instrumentality's of the U.S. government; U.S. government or federal agency obligation repurchase agreements; bankers' acceptances issued by a bank which is a member of the F.D.I.C.; mutual funds composed of investment vehicles that are legal for direct investment by a district library; investment pools composed entirely of instruments that are legal for direct investment by a district library.

The District Library's deposit and investment policies are as follows:

Interest rate risk. In accordance with its investment policy, the District Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the library's deposits may not be returned to it. As of June 30, 2008, \$502,562 of the Library's bank balance of \$902,562 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District Library will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investment to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District Library will do business.

Foreign currency risk. The District Library is not authorized to invest in investments which have this type of risk.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 3 – CASH AND INVESTMENTS: (CONTINUED)

As of June 30, 2008, the District had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>WEIGHTED AVERAGE MATURITY (YEARS)</u>	<u>%</u>
Pooled investment funds:			
Comerica Bank – Governmental cash Investment Fund J	\$466,117	0.0027	100%
Portfolio weighted average maturity		0.0027	

1 day equals 0.0027, one year equals 1.00

NOTE 4 – CAPITAL ASSETS:

Capital asset activity of the Library is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Land improvements	\$139,372			\$139,372
Building improvements	485,891	\$ 4,498		490,389
Equipment	144,117	5,125	\$4,383	144,859
Construction in progress		43,098		43,098
Collections	<u>142,217</u>	<u>12,720</u>		<u>154,937</u>
	911,597	65,441	4,383	972,655
Less: Accumulated depreciation	<u>279,357</u>	<u>45,895</u>	<u>4,247</u>	<u>321,005</u>
Net capital assets	<u>\$632,240</u>	<u>\$19,546</u>	<u>\$ 136</u>	<u>\$651,650</u>

NOTE 5 – FUND BALANCE, RESERVED:

Various certificates of deposit have been designated for specific purposes. The following reservations have been made:

Unemployment Fund	\$ 14,279
Willet Trust Fund	5,599
Technology Fund	17,480
Memorial and Special Projects	13,420
Sick Pay Fund	22,459
Capital Outlay Funds	<u>157,063</u>
TOTAL FUND BALANCE RESERVATIONS	<u>\$230,300</u>

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 6 – PENSION PLANS:

Defined Contribution Pension Plan:

The District Library provides pension benefits for all its employees through a defined contribution SEP plan except as described below. Employees over the age of 21 are eligible to participate 90 days after their date of employment. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The plan requires the District Library to contribute an amount equal to 8% of the employee's base salary each quarter, but does not require or allow employee contributions. The District Library's contributions for each employee and the interest allocated to the employees' accounts are fully vested at all times.

The District Library's total payroll for the year ended June 30, 2008, was \$173,752. The District Library's contributions were calculated using the base salary amount of \$171,545 and the District Library made the required contributions amounting to \$13,724.

NOTE 7 – LEASE:

The District Library is leasing a copier under a noncancelable operating lease which will expire May 2010. The following is a schedule by years of future minimum rentals under the lease at June 30, 2008:

Years Ending	
<u>June 30:</u>	
2009	\$1,298
2010	1,190

This lease contains an option whereby the District Library can purchase the copier at fair value at the end of the lease term. Lease expense under this non-cancelable lease was \$1,442 for 2008.

NOTE 8 – RISK MANAGEMENT:

Property, liability and worker's compensation insurance and health and disability benefits are contracted by the District Library with commercial insurance providers. For the year ended June 30, 2008, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

HARBOR BEACH AREA DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 9 – RE CONCILIATION OF BASIC FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS:

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the balance sheet and statement of revenue, expenditures, and changes in Fund Balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified accrual basis	\$ 876,722
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>651,650</u>
Net Assets – Full accrual basis	<u>\$1,528,373</u>
Net change in Fund Balance – Modified accrual basis	\$ 91,313
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books and collection materials	12,720
Capital outlay	52,721
Loss on asset disposal	(135)
Depreciation	<u>(45,895)</u>
Change in Net Assets – Full accrual basis	<u>\$ 110,724</u>

REQUIRED SUPPLEMENTARY INFORMATION

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - UNDER (OVER)
REVENUE:				
Taxes	\$ 362,552	\$ 362,552	\$ 363,871	\$ 1,319
State grants	2,000	2,000	4,503	2,503
Fines and forfeits	19,000	19,000	26,061	7,061
Rentals	12,300	12,300	14,999	2,699
Interest	20,000	20,000	29,462	9,462
Program fees	4,000	9,000	9,475	475
Other grants			3,000	3,000
Other revenue	10,660	12,610	18,294	5,684
TOTAL REVENUE	<u>430,512</u>	<u>437,462</u>	<u>469,664</u>	<u>32,202</u>
EXPENDITURES:				
Recreation & Cultural:				
Salaries & wages	146,000	146,000	144,324	1,676
Employer FICA	11,200	11,200	11,038	162
Retirement	11,700	11,700	11,516	184
Employee benefits	55,030	54,780	33,112	21,668
Insurance - Workers Comp.	3,000	3,000	2,304	696
Unemployment	500	500	-	500
Books	18,500	18,592	13,223	5,369
Magazines & periodicals	2,500	2,500	1,920	580
Video cassettes	10,780	10,780	8,692	2,088
Computer software	2,000	2,000	1,400	600
White Pine contract	2,500	2,500	2,031	469
HB historical video	10	10		10
Copier lease	1,500	1,500	1,442	58
Furniture and equipment	992	500	-	500
Supplies	3,800	4,100	3,611	489
Utilities	37,500	37,500	29,123	8,377
Water & sewer	850	850	737	113
Internet access	600	600	574	26
Telephone	2,750	2,750	2,469	281
Repairs & maintenance	17,100	17,200	16,505	695
Insurance	16,000	16,000	7,207	8,793
Advertising	1,500	1,500	1,459	41
Elections & legal fees	2,000	2,000	-	2,000

(Continued)

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - UNDER (OVER)
(CONTINUED)				
Audit fees	2,600	2,600	2,600	-
Meals & mileage	2,000	2,000	1,374	626
Workshops	1,200	1,200	390	810
Friends of the Library	1,500	3,500	3,404	96
Adult library programs	5,800	11,000	10,985	15
Concert series	4,500	4,500	3,644	856
Summer reading program	3,000	3,000	1,967	1,033
Technology equipment	3,000	3,000	2,795	205
Capital outlay	20,000	64,000	53,782	10,218
TOTAL EXPENDITURES	391,912	442,862	373,628	69,235
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	38,600	(5,400)	96,036	101,437
FUND BALANCE - JULY 1	747,772	747,772	747,772	
FUND BALANCE - JUNE 30	\$ 786,372	\$ 742,372	\$ 843,808	\$ 101,437

(Continued)

HARBOR BEACH AREA DISTRICT LIBRARY

BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET - UNDER (OVER)
REVENUE:				
Charges for services	\$ 86,500	\$ 81,600	\$ 75,853	\$ (5,747)
Rentals	600	875	875	-
Interest	900	1,585	1,589	4
Other revenue	1,750	2,690	2,696	6
TOTAL REVENUE	<u>89,750</u>	<u>86,750</u>	<u>81,013</u>	<u>(5,737)</u>
EXPENDITURES:				
Recreation & Cultural:				
Salaries & wages	30,500	30,500	29,859	641
Employer FICA	2,350	2,350	2,287	63
Retirement	2,450	2,450	2,207	243
Film rental	22,500	19,960	19,959	1
Concession purchases	14,000	13,625	13,603	22
Pickup & delivery	2,800	2,360	2,356	4
Supplies	1,500	613	596	17
Utilities	650	550	545	5
Repairs & maintenance	800	1,137	1,136	1
Capital Outlay		1,200	1,200	-
Custodial service	5,000	5,000	5,000	-
Insurance	200	200	200	-
Meals & milage		105	103	2
Advertising	7,000	6,700	6,686	14
TOTAL EXPENDITURES	<u>89,750</u>	<u>86,750</u>	<u>85,736</u>	<u>1,014</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(4,723)</u>	<u>(4,723)</u>
FUND BALANCE - JULY 1	<u>37,637</u>	<u>37,637</u>	<u>37,637</u>	
FUND BALANCE - JUNE 30	<u>\$ 37,637</u>	<u>\$ 37,637</u>	<u>\$ 32,914</u>	<u>\$ (4,723)</u>



Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA

Consultant: Allan W. Nietzke, CPA

Principals: Eugene R. Gascho, COO

Brian V. Hazard, CPA JoAnn E. Lakie, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

Communication of Significant Deficiencies and Material Weaknesses

To the Board of Trustees of
Harbor Beach District Library,

In planning and performing our audit of the financial statements, the governmental activities and each major fund of Harbor Beach Area District Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Harbor Beach Area District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting. (2008-1)

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, of the significant deficiencies described, we consider item (2008-2) to be a material weakness.

This communication is intended solely for the information and use of management, the Board of Trustees of Harbor Beach Area District Library, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel P.C.
Nietzke & Faupel, PC
Pigeon, Michigan

October 1, 2008

**HARBOR BEACH AREA DISTRICT LIBRARY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

FINDINGS-FINANCIAL STATEMENTS AUDIT

Significant Deficiency:

2008-1 Cash Receipts

Condition: Presently, a single individual collects the cash receipts, prepares the bank deposits and records the receipts.

Criteria: To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Effect: This could allow for unrecorded funds or incorrectly recorded funds.

Recommendation: We suggest that the cash custody duties be separated from the record keeping duties if possible.

Response: We are aware of this deficiency and to the extent possible we will attempt to segregate the above duties.

Material Weakness:

2008-2 Preparation of the GAAP Basis Financial Statements

Condition: We assisted the Library by preparing the annual financial statements (including required disclosures) of the Library prepared in accordance with generally accepted accounting principles.

Criteria: The responsibility for the Library's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the Library. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: We recommend that the Library acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

Response: We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.